

Message Text

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INFO AMCONSUL TORONTO

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E.O. 11652: N/A

TAGS: EFIN, CA

SUBJ: CANADIAN BROKER VIEWS OF EXCHANGE RATES AND CANADIAN
ECONOMY

REF: OTTAWA 4730

1. DURING NOVEMBER 30 INVESTMENT SEMINAR SPONSORED BY OTTAWA OFFICE OF MERRILL LYNCH ROYAL SECURITIES, AL SMITH, CHIEF ANALYST OF TORONTO OFFICE, PRESENTED WHAT HE TERMED "MERRILL LYNCH VIEW OF CURRENT EXCHANGE MARKETS AND CANADIAN ECONOMY." HE CLAIMED HIS BROKERAGE FIRM'S ANALYSIS OF CANADIAN DOLLAR SHOWED IT OVER VALUED BY 15 PERCENT (WHEN C\$1.00 EQUAL US \$1.03), BUT THAT MERRILL LYNCH DID NOT EXPECT CANADIAN DOLLAR TO DROP BELOW US \$0.95 IN NEAR-TERM.

2. SMITH WAS EXTREMELY CRITICAL OF GOC ECONOMIC POLICIES, PARTICULARLY GOVERNMENT INTERVENTION IN MARKET ECONOMY, AND NOT A SINGLE MEMBER OF 200 PLUS AUDIENCE (COMPOSED LARGELY OF FEDERAL CIVIL SERVANTS) CHALLENGED HIM. SMITH'S WIDE-RANGING CRITICISM INCLUDED GOC ANTI-INFLATION PROGRAM, LARGE AND GROWING SHARE OF GNP
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TAKEN BY GOVERNMENTS, HIGH INTEREST RATES, RENT

CONTROLS, UNEMPLOYMENT BENEFITS, AND INDEXATION SCHEMES.

3. CLAIMING THAT HE WAS "JUST A LITTLE COUNTRY BOY FROM CANADIAN PRAIRIES," SMITH SAID HE WAS OFTEN ACCUSED OF SOUNDING LIKE AMERICAN BUSINESSMAN. HOWEVER, HE STATED THAT HE AND HIS FIRM WERE "COMMITTED" TO CANADA AND THAT HE HOPED HIS AUDIENCE OF GOC CIVIL SERVANTS WOULD UNDERSTAND HIS CONCERN ABOUT "MISGUIDED" GOVERNMENT POLICIES.

4. SMITH AND OTHER MERRILL LYNCH PANELISTS LEFT AUDIENCE WITH CLEAR IMPRESSION THAT CANADIAN STOCK MARKETS WOULD CONTINUE TO DECLINE IN SHORT-TERM AND THAT N.Y. STOCK MARKET WAS PLACE FOR CANADIAN INVESTORS PUT THEIR MONEY NOW. (ONE MERRILL LYNCH ACCOUNT EXECUTIVE TOLD EMBOFF LATER THAT HER OFFICE HAD NOT BEEN RECOMMENDING CANADIAN STOCKS FOR MONTHS AND WOULD PROBABLY REMAIN BEARISH UNTIL EXCHANGE MARKETS SETTLED DOWN.)

5. SMITH DEVOTED CONSIDERABLE TIME TO PROBLEM OF LARGE AND GROWING CURRENT DEFICIT (HE CLAIMED THAT DEFICIT WAS NOW RUNNING AT MORE THAN \$6 BILLION ANNUAL RATE), AND UNLESS GOC ADDRESSED ITSELF TO THIS PROBLEM, HE MAINTAINED THAT CANADA'S CREDIT WORTHINESS WAS IN JEOPARDY.
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